IMPERIAL OIL LIMITED ANNUAL REPORT NINETEEN SIXTY FIVE

Results in Brief

Financial	1965	1964
EARNINGS for the year	$ 86,178,000	$ 79,072,000
per share	*$2.71*	*$2.50*
as a percentage of revenues	*7.4*	*7.3*
as a percentage of capital employed at January 1	*9.5*	*9.0*
DIVIDENDS paid to shareholders	$ 58,667,000	$ 55,382,000
per share	*$1.85*	*$1.75*
as a percentage of earnings	*68*	*70*
SHAREHOLDERS' INVESTMENT at year end	$ 798,285,000	$ 768,574,000
per share	*$25.16*	*$24.27*
CAPITAL AND EXPLORATION EXPENDITURES	$ 115,591,000	$ 99,879,000
TOTAL ASSETS at year end	$1,067,513,000	$1,020,693,000

Operating	*Barrels per day*	*Barrels per day*
PETROLEUM AND CHEMICAL PRODUCT SALES	366,000	342,000
CRUDE OIL PROCESSED AT REFINERIES	332,000	314,000
CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCTION		
Gross	133,000	131,000
Net	115,000	114,000
NATURAL GAS PRODUCTION	*M.C.F. per day*	*M.C.F. per day*
Gross	215,000	188,000
Net	181,000	160,000

Annual Report nineteen sixty five

Imperial Oil Limited

Incorporated under "The Canada Joint Stock Companies Act, 1877" on September 8, 1880
Head Office: 111 St. Clair Avenue West, Toronto 7, Ontario

DIRECTORS

J. A. Armstrong
J. A. Cogan
D. H. Cooper
J. W. Flanagan
L. D. Fraser
J. W. Hamilton
A. C. Harrop
T. F. Moore
R. S. Ritchie
D. S. Simmons
V. Taylor
W. O. Twaits

OFFICERS

President	W. O. Twaits
Executive Vice-President	J. A. Armstrong
Vice-Presidents	J. A. Cogan
	L. D. Fraser
	T. F. Moore
	V. Taylor
General Secretary	G. M. Henderson
Comptroller	G. R. McLellan
Treasurer	D. W. McGibbon
General Counsel	J. F. Barrett, Q.C.

TRANSFER OFFICES

Imperial Oil Limited: Toronto, Ontario
Montreal Trust Company: Halifax, Nova Scotia; Montreal, Quebec;
Toronto, Ontario; Winnipeg, Manitoba; Regina, Saskatchewan;
Calgary, Alberta; Vancouver, British Columbia
Bankers Trust Company: New York, New York

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Annual General Meeting of Shareholders
11:00 a.m., Monday, April 18, 1966
Canadian Room, Royal York Hotel, Toronto, Ontario

Report to the Shareholders

For the fiscal year ended December 31, 1965.

Imperial's earnings in 1965 were at the highest level in the company's history; substantially increased product sales, combined with lower unit costs, resulted in net earnings of $86 million, an increase of nine per cent over the previous year.

Capital and exploration expenditures totalled $115 million as the company continued to broaden the scope of its operations and to expand its facilities.

In addition to new records in all major phases of operations – in volumes of products refined and sold, in production of crude oil and natural gas – the year saw a number of developments of particular significance to the company. Among these were:

- the discovery of crude oil in the Rainbow area of northern Alberta.
- the exploration of underwater formations in the Atlantic Ocean, 200 miles southeast of Newfoundland.
- the extension of petrochemical operations into new locations across the country.
- the launching of a new tanker.
- the introduction of a new and much broader employee benefits program.
- the appearance of the friendly tiger at Esso stations throughout Canada.

Imperial continues to be among the largest purchasers in the country and in 1965 bought more than $116 million of goods – 93 per cent of all its purchases – from suppliers in Canada. This very important contribution to the nation's economy sometimes tends to be obscured by the company's role as Canada's largest supplier of energy, and as a source of chemicals that enter into a host of products which Canadians use every day.

For Imperial and the industry as a whole there was a further reduction in the surplus refining capacity that has prevailed for nearly ten years, although in some areas this remains high. Petroleum product prices stabilized in some market areas in the last six months but, on average over the year, prices were a little lower than in 1964.

In the producing area, Alberta's new well spacing regulations made it possible for the company and the industry to achieve significant savings in production costs. Of significance also was the U.S. government's review of its oil import allocations policy and the resulting decision to retain the provisions which permit the continued orderly growth of export markets for Canadian crude oil.

In the legislative field, at year end the industry was waiting publication of two reports of special significance – that of the Royal Commission on Taxation, and that of the Royal Commission on the Gasoline Price Structure in British Columbia. Imperial submitted briefs to both, and submissions to the latter Commission continued to take a great deal of the company's executive time in the early part of the year. A government committee was established in Alberta to enquire into the marketing of gasoline and petroleum products in that province.

The performance of the petroleum industry during 1965 was a direct reflection of the economic expansion which is continuing unabated in Canada. The short-term outlook for the industry is one of continued solid growth in all major aspects. General economic buoyancy, stimulated once more by large export sales of wheat, should again exert a favorable influence. In 1966 petroleum product sales should increase five per cent, assuming normal heating requirements. It is expected that domestic crude oil production will also increase by the same percentage.

Looking to the longer term, oil and gas will continue to provide the major share of Canada's growing energy needs. While the outlook for the oil industry is generally good, there must be concern over recent inflationary cost pressures which bear both on our industry and on the Canadian economy as a whole. Increased wage rates in various key sectors of the Canadian economy in recent months are adding significantly to costs. During the last six months of 1965, for instance, construction costs rose sharply, reflecting both rising material prices and rising wage rates. Because Canada must compete in international markets, both production and employment in Canada are adversely affected by cost increases which exceed those of our competitors abroad.

That such inflationary pressures put strains on Canada's productive capacity is recognized by both industry and government. These pressures must be contained. Their existence demands even greater emphasis by both business and governments – at all levels – on, first, carefully apportioning capital resources to their most productive uses and, second, improving efficiency in all segments of the economy.

Imperial's operations are highly capital-intensive, demanding large annual expenditures for capital goods and equipment. We are therefore particularly aware of these conditions and of the necessity of maintaining critical vigilance over timing of capital projects, cost control, and efficiency improvement programs.

Highlights of the company's activities are shown in the Pictorial Review, which starts on page six. A summary of 1965 operations follows:

Exploration and Production

Exploration expenditures during 1965 were $30 million, as the company continued to expand the area of its oil and gas search. Wildcat drilling ranged from the Arctic coastal plains in the Northwest Territories to Anticosti Island in the Gulf of St. Lawrence. In association with Pan American Petroleum Corporation, the company began a program to probe the ocean floor on the Grand Banks southeast of Newfoundland. The undersea core drill and seismic work carried out resulted in the decision to drill exploratory wells in the area during the summer of 1966.

Several oil and gas discoveries were made by Imperial during the year. The most significant of these was in the Rainbow area of Alberta, where the company has extensive holdings. Exploration work by Imperial and others in the area has revealed geological information that will stimulate exploration in a large region of northwestern Alberta. Rainbow is, therefore, one of the most significant oil discoveries since Leduc.

During 1965 stepout drilling by Imperial and partners in the Obed field in Alberta confirmed the presence of major gas reserves.

The company is participating in a search for minerals in the James Bay area of northern Ontario. Exploration is being carried out in partnership with three mining companies.

The company's reserves of crude oil and natural gas liquids increased by 89 million barrels and at year-end were estimated at 1.5 billion barrels. (These are reserves which the company feels can reasonably be considered as proved. The estimate is based on present knowledge of the size and nature of the producing reservoirs.)

Capital expenditures for the acquisition of proven acreage, for oil and gas field development, and for secondary recovery projects, totalled $41 million during 1965. The company's net production of crude oil and natural gas liquids rose a little more than 1,000 barrels a day to 115,000 barrels a day. Natural gas production increased 13 per cent to 181 million cubic feet per day.

Alberta's new proration regulations began to have an effect during the year. Because of the new spacing regulations the number of industry wells being produced at year-end in the Redwater field, for example, totalled 450, compared with 840 at the end of 1964, resulting in significant savings in operating costs. Similar economies were gained through wider spacing of development wells in recently discovered fields such as Mitsue.

Marketing

The company's petroleum product sales increased substantially during 1965. The gratifying sales performance, which pertained to all markets, reflected the new programs which the company has been carrying out to meet customers' changing requirements. In the retail gasoline market there has been a marked and continuing change in the size of company outlets and in the nature of the goods and services they provide. The quality of Esso gasolines is being constantly improved, new lines of oils and additives have been introduced and new and improved lines of automotive accessories have been added. The colorful "tiger" campaign was a highlight of an aggressive gasoline promotion program in this market.

Sales increased in the farm market, and the company continued to expand its range of products and services for farm customers. Sales of Engro fertilizer supplied about eight per cent of the total Prairie fertilizer market in 1965 – the first full year that this product has been marketed. Unitol, a multi-purpose grease tailored to farm requirements, was introduced during the year. Diesel fuel sales showed a marked increase as farmers continued to switch from gasoline to diesel power.

In the home heat market the company continued to feature its free burner service and introduced the new Ultimatic line of Esso furnaces. Sales of Esso fuel oil reached a record high.

Sales were also higher in the industrial/commercial market, which accounts for more than one-third of the company's total petroleum products sales. Imperial's industrial/commercial division expanded its technical services to meet the special requirements of customers in the manufacturing, transportation and resource industries.

Expenditures for new sales and distribution facilities totalled $21 million during 1965.

Transportation

In November of 1965 Mrs. John Robarts, wife of the premier of Ontario, christened Imperial's new products tanker, the Imperial Acadia. Built at Port Weller, Ontario, at a cost of $4.6 million, the 9,400-ton ship will enter service on the east coast during 1966. It will have a carrying capacity of 81,500 barrels of petroleum products.

Arrangements also were made by Imperial to charter a new 102,000-ton tanker which will deliver crude oil to refineries in eastern Canada. The tanker, which will have a capacity of 780,000 barrels, will be built during 1966 and go into operation in 1967.

Other transportation facilities were expanded, and their efficiency improved.

Manufacturing

Capital expenditures for manufacturing operations were $9 million during 1965. In general these expenditures were directed toward increasing the efficiency and capacity of existing units.

Plans were announced for construction of a $25 million fluid coking complex at Sarnia which will increase refinery capacity, give greater yields of more valuable products, and expand ethylene facilities. Scheduled to be in operation in mid-1967, the new complex, and the existing fluid catalytic cracker and atmospheric and vacuum units, will be operated from a new central control room which will include an "on-line" computer, believed to be the first in Canada.

Chemical Products

Chemical product facilities expanded and sales increased during 1965. An acrylonitrile plant and a mercaptans plant were put on stream at Sarnia near the end of the year. The acrylonitrile unit is Canada's first and has a capacity sufficient to supply domestic requirements and

some quantities for export. Acrylonitrile is a versatile petrochemical used in the production of synthetic rubber, fibres and plastics.

Construction got underway on a plant for the manufacture of polyvinyl chloride (PVC) plastic at Sarnia, an applications research laboratory at Sarnia, and a sulphur plant at Winnipeg. The laboratory is being built to investigate new PVC uses and for the development of new compounds, as well as to provide customer service in the use of these products.

Capital expenditures for chemical products facilities totalled $8 million in 1965.

Contracts were let for construction of a sulphur plant at Dartmouth and for a methanol plant at Montreal. Methanol is used as a solvent and as a raw material for the manufacture of a number of chemicals. The new plant will be built during 1966 and is scheduled to go on stream in 1967. At year end, plans were being finalized for a toluene plant at Ioco, B.C. Toluene is used widely as a solvent and in the manufacture of adhesives for the plywood industry.

The Winnipeg and Dartmouth sulphur units will not only provide new local sources of this important chemical, they will help control air pollution.

Building Materials

During the first quarter of 1965 sales of Building Products of Canada Limited were affected adversely by pre-purchases made by customers in 1964 in anticipation of the increase in sales tax on building materials. In the last six months sales increased appreciably, and for the year as a whole the company improved its industry position for a number of its important products.

During the year Building Products began the manufacture of PVC conduits at its Acton plant. Plans were also instituted for early production of other products, including new extruded acrylic and PVC sheet materials. The company's research and development division at Montreal continued its work on the development of new and improved products and processes.

Research and Development

Imperial continued to lead the industry in the extent and diversity of its research and development program.

A new process to improve octane quality of gasoline by hydrogen treating was developed by the research department and construction of the first unit to utilize this process was undertaken at the company's Dartmouth refinery.

A number of new products were developed by the Sarnia laboratories, ranging from a heavy alkylate used in the manufacture of lubricating oil additives to a multi-purpose farm grease. Special products were also formulated to meet the needs of large industrial customers.

Construction of an $11 million experimental pilot plant at Dartmouth, N.S., was completed during 1965. Named FIOR (for fluid iron ore reduction), the plant was built to carry out large-scale experiments in the reduction of iron ore using petroleum fuels. Trial runs of the new plant were completed in October and confirmed the general workability of the process. An extensive research program is being carried out with a number of different iron ores to define the economic and technical capabilities of the process and to provide data for design of commercial plants. The FIOR venture is a part of Imperial's program to develop investment opportunities in fields associated with the technology and materials of the oil industry.

The company's production research and technical services laboratory in Calgary continued its field and laboratory tests on ways of producing heavy oil from formations in northeastern Alberta. In partnership with other companies, Imperial also continued its studies on the production of oil from the Athabasca tar sands.

Employee Relations

On November 6, following months of negotiation and discussion, those employees of the company's Ioco refinery who are members of the Oil, Chemical and Atomic Workers union, went on strike. The union earlier had struck the plants of another company. Shortly after the strike was called at Ioco, and following the threat of a 48-hour general province-wide strike in support of the oil workers union and directed against the oil industry, the government of British Columbia intervened. After careful study, Imperial accepted the government recommendations for settlement, although viewing with concern the implications of this intervention for business, labor and government.

Job security has never been a major problem at Imperial refineries, and had not been emphasized in the early contract discussions at Ioco, but it was raised later as a prominent issue by the union and received wide publicity. In this regard, the government's recommendations concerning job security in the strike settlement did not vary appreciably from Imperial's established practices and were similar to recommendations contained in a conciliation board report which had been issued three months earlier, and accepted by Imperial without qualification.

Because Imperial's success depends on the talents and skills of its employees, and on the interest which they bring to their work responsibilities, a basic company objective has always been the maintenance of an environment that will attract and retain people of high competence. An important facet of this is the provision of benefit plans that reflect the company's leading position in Canadian industry. Several years of intensive reassessment of existing plans culminated in 1965 with the

announcement of a number of changes in the company's benefit program which is now effectively coordinated with the recently instituted Canada Pension Plan (in Quebec, with the Quebec Pension Plan). Imperial's new plan, which went into effect on January 1, 1966, increases the security and protection of employees.

* * *

Your directors extend their thanks to the company's employees, dealers, agents, and distributors, and to its 41,208 shareholders, for their support.

W. O. Twaits, president.

The company's exploratory drilling operations moved still further north in 1965. This rig is drilling in the Arctic coastal area.

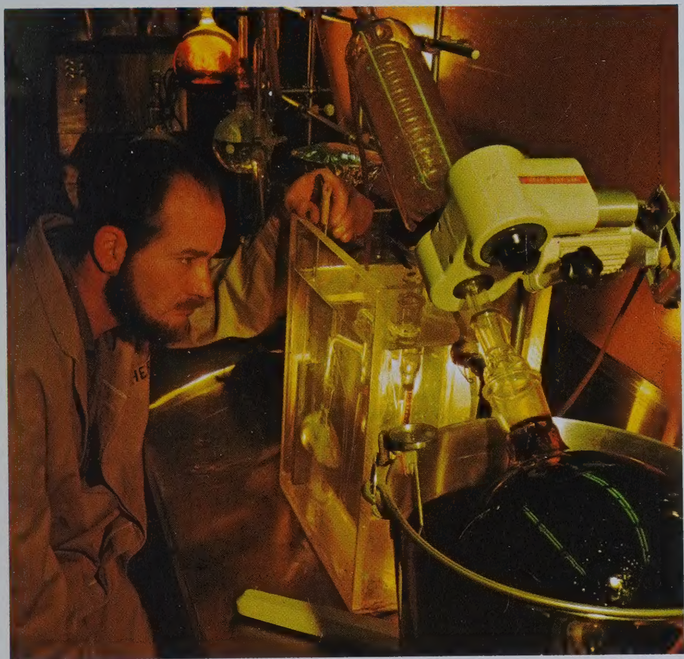
Exploration and Production

Imperial's exploration program ranged from the Arctic coastal area to the Grand Banks off Newfoundland. Oil discoveries were made in the Rainbow area of northern Alberta and in Saskatchewan. The company's production of oil and gas continued to rise, while reserves increased substantially.

	1965	1964
Net production, crude oil and natural gas liquids, barrels per day	115,000	114,000
Net production, natural gas, M.C.F. per day	181,000	160,000
Gross land holdings (reservations, permits, options, leases) millions of acres	50.6	32.2
Exploratory wells drilled, including partnership ventures	91	119
Net development wells drilled	135	116
Net wells capable of production		
crude oil	2,908	2,830
natural gas	208	201

Imperial's exploration for oil probed remote regions. Here a gravity meter reading is taken in the delta area of the Mackenzie River.

In association with Pan American Petroleum Corporation, offshore seismic and core drill exploration was started on the continental shelf southeast of Newfoundland.



Among other projects, the company's production research and technical service laboratories in Calgary continued to study ways of producing heavy oil from formations in northeastern Alberta. Here a technician uses vacuum equipment to extract water from a sample of the heavy oil.

A secondary recovery plant went into operation at the Golden Spike field. Utilizing a process developed by the company's Calgary laboratories, it is expected to recover 95 per cent of the oil remaining in the pool.

Sixteen carloads of drilling rig and equipment were moved by train from Edmonton to Quebec City harbour, shown here, and via freighter to Anticosti Island. Two wells were drilled, both dry.


A battery operator arrives at a pumping installation in the Alida field in Saskatchewan. Imperial discovered three small oil fields in Saskatchewan during 1965.

Transportation and Supply

The efficiency of existing transportation facilities was improved and new facilities were constructed.

New automatic controls were installed at the Waterdown station of the pipe line which delivers products from Imperial's Sarnia refinery to Hamilton and Toronto.

Pipe for the line which Imperial and partners are building from the Rainbow area of northern Alberta to the system that connects the Mitsue-Nipisi region to Edmonton was fabricated in this Calgary pipe mill. During 1965 Imperial purchases of goods from Canadian suppliers totalled more than $116 million.

Imperial tankers got a new paint job – with a new color scheme – during 1965. Showing the red funnel, off-white superstructure and blue hull is the Imperial Collingwood.

Capacity of the Montreal-Portland pipe line, in which Imperial has an interest, was increased 30 per cent to 356,000 barrels a day with the construction of a 24-inch parallel line.

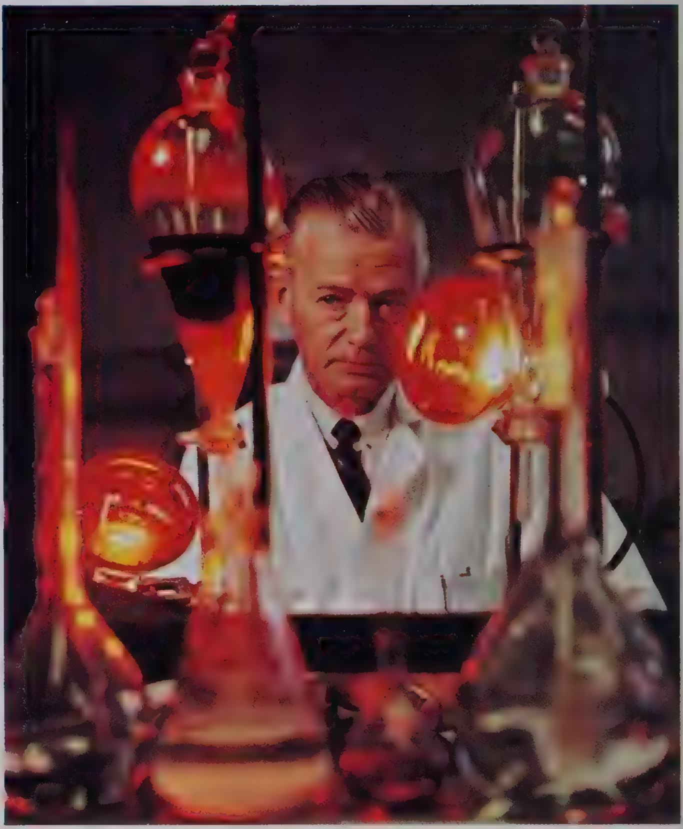
Flags were flying at the drydock in Port Weller, Ontario, when the wife of Ontario Premier John Robarts christened the Imperial Acadia. The 9,400-ton tanker, which has a capacity of 81,500 barrels of oil products, will go into service on the east coast in 1966. The Acadia is the 20th tanker built for Imperial by Canadian shipyards.

Manufacturing

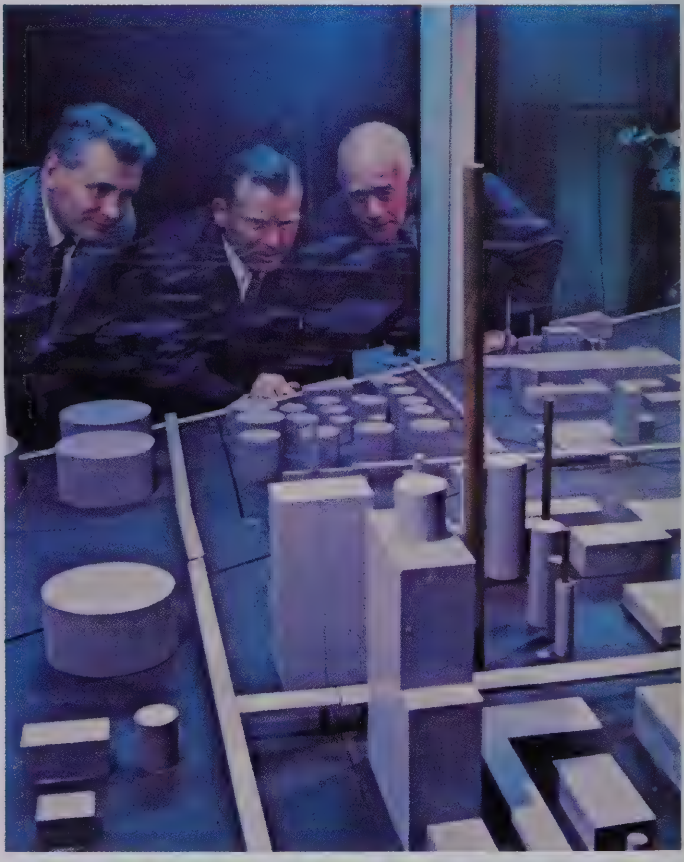
Capital expenditures for manufacturing operations totalled $9 million in 1965. Contracts were let for a $25 million fluid coking complex at Sarnia and for other facilities which will expand refinery capacity and increase efficiency.

Construction was completed of an $11 million experimental iron ore reduction plant at the company's Dartmouth refinery. Trial runs of the new plant were conducted late in the year and confirmed the general workability of the process.

In seeking ways to improve the quality of existing products and develop new products, Imperial research chemists investigate the fundamental nature of petroleum. Here a chemist uses infra-red lamps in a study of trace components in a heavy fraction of crude oil.



For many years, Imperial has been a leader in the study and development of anti-pollution techniques. During 1965, for example, the Regina refinery received a public award for "Waste Control Achievement". Here a representative of the engineering division discusses wind tunnel tests of a model of Sarnia refinery with University of Toronto personnel.



Members of the company's engineering division examine a scale model of a $25 million fluid coking complex which will be built at Sarnia during 1966. The new unit will increase refinery capacity, permit expansion of ethylene production, and give a larger yield of high value products. Its operation will feature an "on-line" computer, believed to be the first in Canada.

Computer facilities, which play an important role in refinery and other company operations across the country, were expanded again in 1965. Here is the new installation at the head office.

Marketing

Volumes of petroleum product sales increased again in 1965, and the company's share of the growing retail market showed a gratifying improvement.

The colorful "tiger" campaign was a highlight of Imperial's retail gasoline marketing operations during 1965.

Imperial continued to build attractive stations at strategic locations along main highways.

Two western farmers load a spreader with Engro fertilizer. Sales of Engro supplied about eight per cent of the total Prairie fertilizer market during 1965, the first full year this product has been marketed.

Automated equipment was installed at a number of bulk distribution plants. This shows part of the instrument panel that controls the flow of products at the new loading rack in Regina.

A custom-formulated Esso transformer oil is delivered to a power station of the Manicouagan project, the largest power development undertaken to date in Quebec. This operation is typical of the activities of the industrial-commercial sales division, which accounts for more than one third of the company's petroleum product sales.

A new car clinic and service centre was opened at a Montreal shopping centre. Construction of similar large multi-service outlets was started in other major markets.

Chemical and Building Products

Chemical products sales increased and facilities expanded during 1965. Two new plants went on stream at Sarnia and construction of two other units and of an applications research laboratory was started.

Building Products of Canada introduced new products and processes and improved its industry position for a number of its important products.

During the year Building Products of Canada started large scale manufacture of polyvinyl chloride conduits.

In November construction was started at Sarnia of a polyvinyl chloride plant and associated applications research laboratory.

At Sarnia, a mercaptans unit (below) and an acrylonitrile unit were put on stream toward the end of the year.

Research support continued for the new acrylonitrile plant and for the polyvinyl resin plant which is under construction. Right, a Plasti-corder is used to study the mixing properties of polyvinyl chloride. Above, a Capillary Rheometer measures the flow characteristics of a plastic product under different temperature and pressure conditions.

New injection moulding facilities were installed at the Acton plant of Building Products of Canada. The new equipment can make a wide range of moulded plastic products.

Financial Review

Earnings

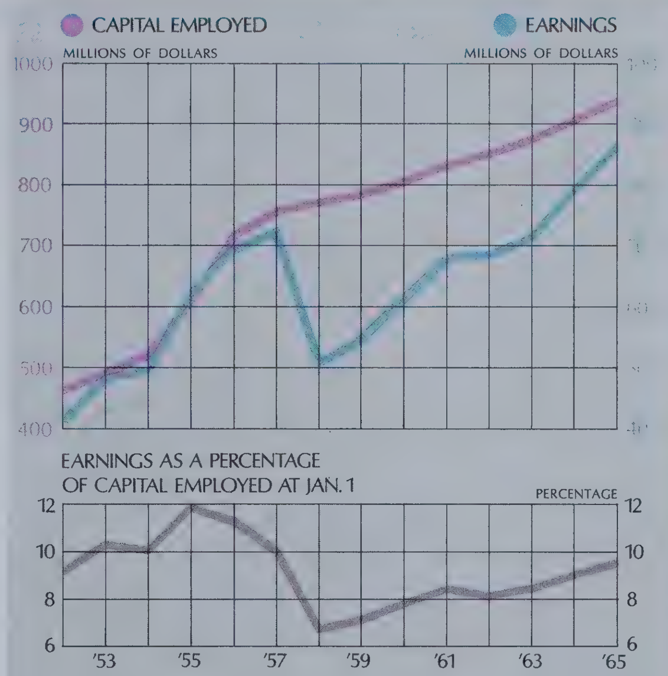
In 1965 the company's earnings rose to $86,178,000, an increase of $7,106,000 or nine per cent over 1964. Chart 1 shows that the earnings have increased in each year since 1958.

Capital Employed

At the end of 1965 capital employed by the company was $937,176,000, more than double the 1952 amount of $465,311,000. Chart 1 demonstrates that since 1956 earnings have not kept pace with the capital investment requirements of the business, although the relationship has improved in the later years. The rate of return has increased from 6.7 per cent in 1958 to 9.5 per cent in 1965.

Dividends Paid to Shareholders

The company has paid dividends each year for 75 years and total payments to date exceed one billion dollars. In 1965 dividends amounted to $1.85 per share compared with $1.75 in 1964. Regular dividends of 40 cents per share were paid in the first three quarters, in the fourth quarter the rate was increased to 45 cents per share and an extra dividend of 20 cents per share was paid. Dividends were 68 per cent of earnings in 1965 and amounted to $58,667,000 compared with 70 per cent and $55,382,000 in 1964. The trend of earnings and dividends per share is shown in Chart 2.



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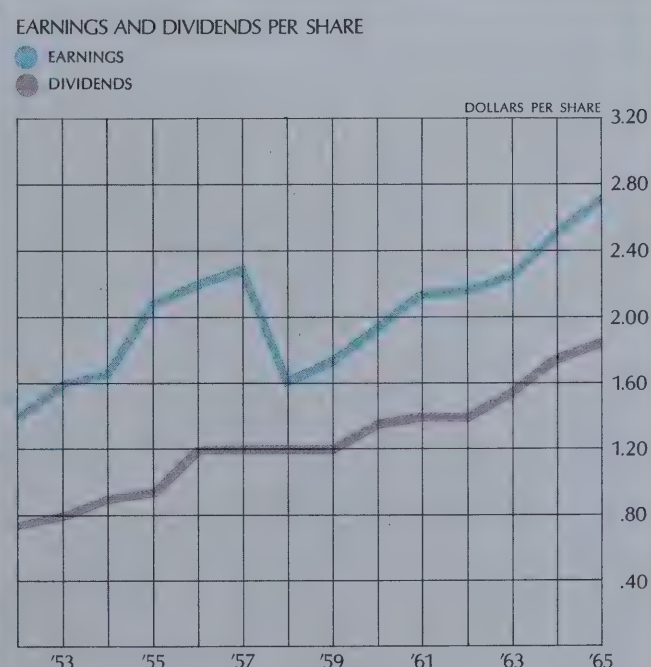


2

Revenues and Expenses

Sales and Other Operating Revenues at $1,145,083,000 increased seven per cent over 1964. Petroleum and chemical product sales volumes increased seven per cent to 366,000 barrels per day with new highs being reached in all main categories of products. Chart 3 shows the trend of sales volumes over the past ten years. Petroleum product prices showed improvement in some areas in the latter part of 1965 but, on average, price realizations for the full year were a little lower than in 1964.

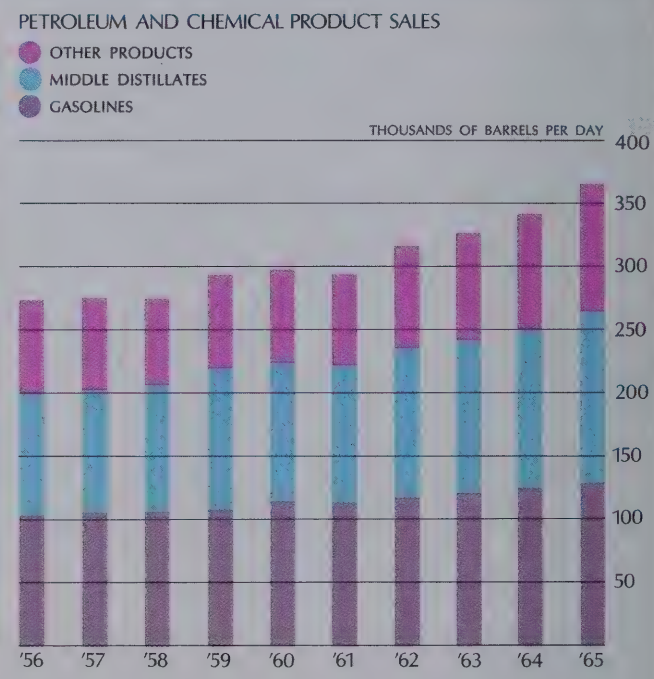
Investment and Other Income totalled $16,784,000 in 1965. This represents mainly dividends on shares held in other companies, and interest from other investments.

Expenses, including crude oil and other material costs, increased with the higher level of operations in 1965, but there was an accompanying reduction in unit costs. Crude runs increased 18,000 barrels per day (Chart 4). Imperial purchased 60 per cent or 177,000 barrels per day of its Canadian crude oil requirements from other producers. Requirements for crude oil and source of supply are shown in Charts 4 and 5. Employees' wages and benefits totalled $110,798,000 for 1965, an increase of $7,242,000 over the previous year; average compensation per employee continued the upward trend of recent years (Chart 6).

Taxes charged against earnings and road and other taxes collected on behalf of governments are shown in the following table and in Chart 7.

	1965	1964
Income taxes	$ 40,861,000	$ 36,979,000
Federal sales taxes	40,098,000	36,057,000
Property and other taxes	14,109,000	13,648,000
Total charged against earnings	95,068,000	86,684,000
Road and other taxes	183,751,000	164,643,000
	$278,819,000	$251,327,000

Road taxes now range from 12 to 19 cents per gallon for gasoline and from 14 to 27 cents per gallon for diesel fuel. During 1965 the rates applied to both gasoline and diesel fuel were increased in Quebec, and increases have been announced in Ontario and Saskatchewan for 1966.



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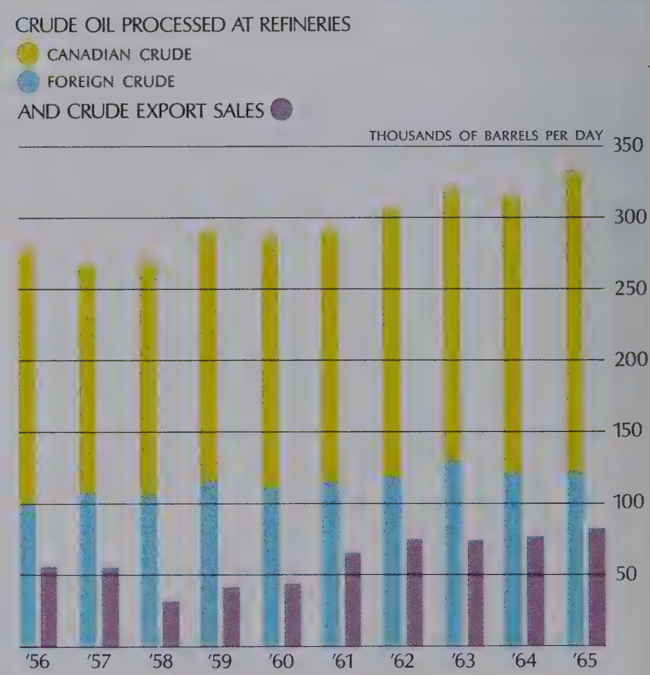

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Working Capital

At the end of 1965 working capital was $271,245,000, an increase of $7,148,000 from the previous year end. A comparative summary of working capital at the end of 1965 and 1964 follows:

	1965	1964
Cash and marketable securities	$ 58,139,000	$ 52,655,000
Accounts receivable	189,349,000	179,167,000
Inventories	151,837,000	146,654,000
Other current assets	2,257,000	1,896,000
Current assets	401,582,000	380,372,000
Less: Current liabilities	130,337,000	116,275,000
Working capital	$271,245,000	$264,097,000
Ratio, current assets to current liabilities	3.1 to 1	3.3 to 1

Accounts receivable totalled $189,349,000 and increased $10,182,000, reflecting the high level of business activity and expanding operations. Provisions have been made for accounts considered doubtful of collection.

Inventories of crude oil, products and other merchandise were $5,874,000 higher than at the previous year end and totalled $142,509,000 by the FIFO (first-in first-out of inventory) method of costing. The materials and supplies inventory totalled $9,328,000, a decrease of $691,000 from year end 1964.

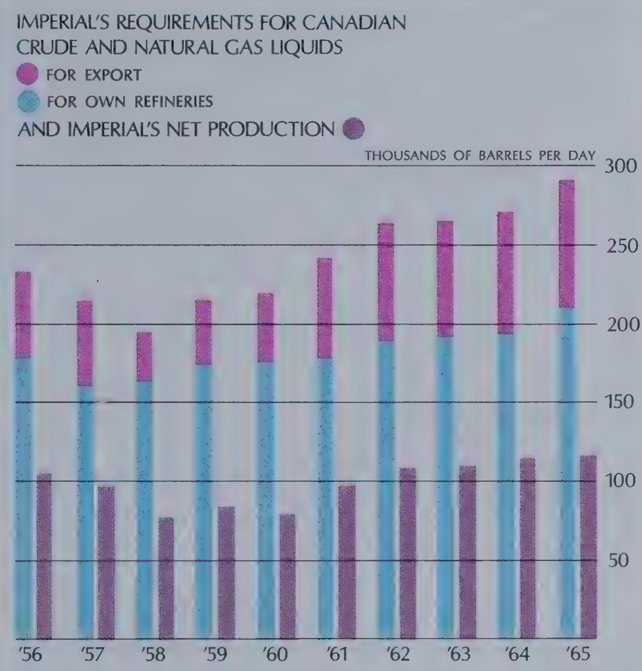
Long-Term Accounts Receivable

Loans to dealers and the financing of furnace and burner sales undertaken in the normal course of marketing operations totalled $42,568,000 at the end of 1965, an increase of $2,603,000 during the year.

Investment in Other Companies

The major investments in other companies consist of:

	Per Cent Interest	Principal Activity
Interprovincial Pipe Line Company	33.0	Crude oil trunk line
Trans Mountain Oil Pipe Line Co.	8.6	Crude oil trunk line
Montreal Pipe Line Co. Limited	32.0	Crude oil trunk line
Tecumseh Gas Storage Limited	50.0	Natural Gas Storage



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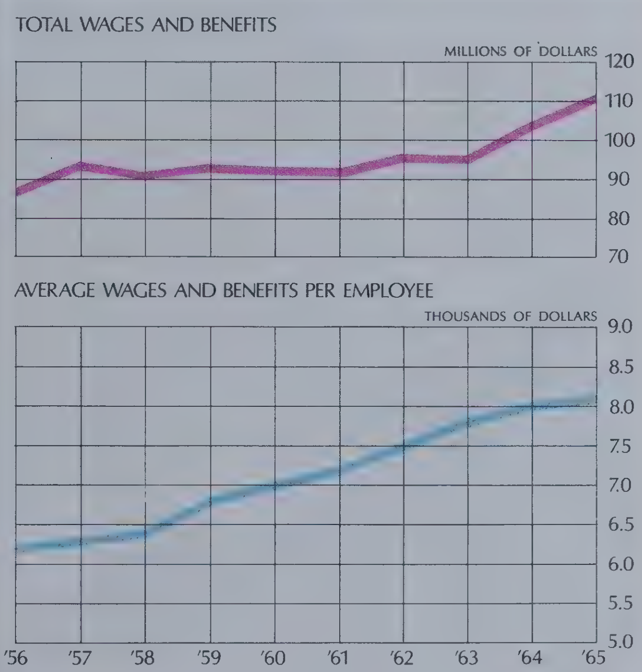

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Property, Plant and Equipment

Total capital and exploration expenditures amounted to $115,591,000 in 1965, an increase of $15,712,000 or 15 per cent over the previous year (Chart 9).

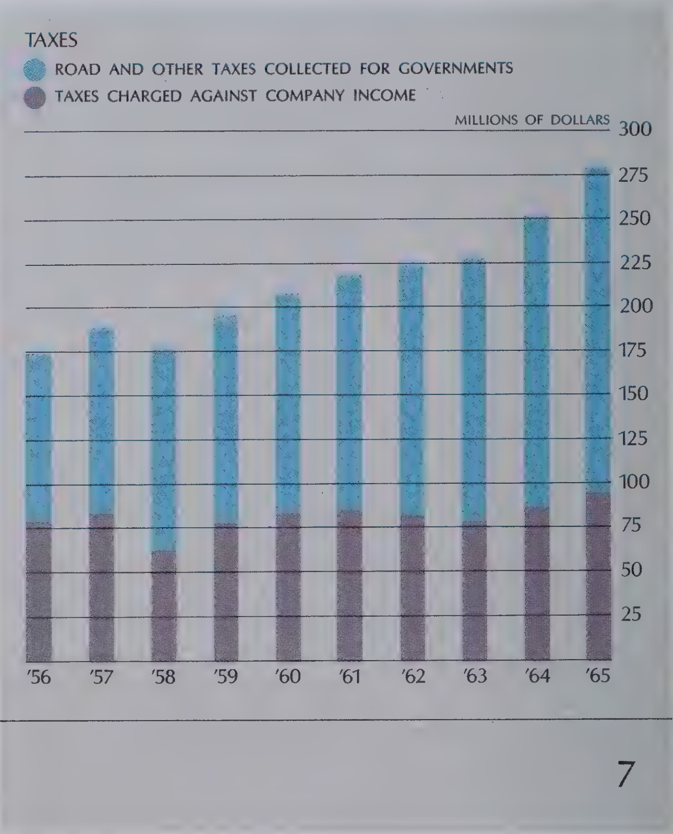
The following table provides a breakdown of the company's gross investment in property, plant and equipment at original cost, the net investment after accumulated depreciation and amortization and the 1965 additions:

	Gross Investment	Net Investment	1965 Additions
Producing	$ 387,184,000	$230,473,000	$40,777,000
Manufacturing, including chemical products .	380,895,000	136,370,000	16,640,000
Marketing	289,658,000	169,261,000	21,583,000
Transportation	46,733,000	25,800,000	3,250,000
Other	40,301,000	30,879,000	3,335,000
	$1,144,771,000	$592,783,000	$85,585,000

Capital additions totalled $85,585,000 and included expenditures on purchases of proven acreage and drilling of productive wells. In addition $30,006,000 was expended on acquisition and retention of exploration acreage, geological and geophysical investigations and surveys, unsuccessful drilling and other exploration costs. It is the policy of the company to treat such annual costs as charges against current earnings.

Long-Term Debt

At December 31, 1965 long-term debt was $58,400,000 consisting of Sinking Fund and Serial Debentures. During the year the company retired $5,700,000 of long-term debt by purchases before maturity date. Details of long-term debt outstanding are shown in the Notes to the Financial Statements on page 27.



Employees' Annuities

Up to the end of 1965 the company had two main plans which jointly provide life annuities to employees upon retirement, one an insured group annuity and the other administered by a Board of Trustees. Effective January 1, 1966 with the introduction of the company's new retirement plan, these arrangements have been changed so that in future all annuities provided by the company will be administered by a Board of Trustees. At December 31, 1965 the trustees held investments of $104,045,000 at cost; in addition a liability of $9,877,000 for employees' annuities has been provided in the company's accounts.

At year end 2,449 retired employees were drawing life annuities under these company plans.

Deferred Income Tax

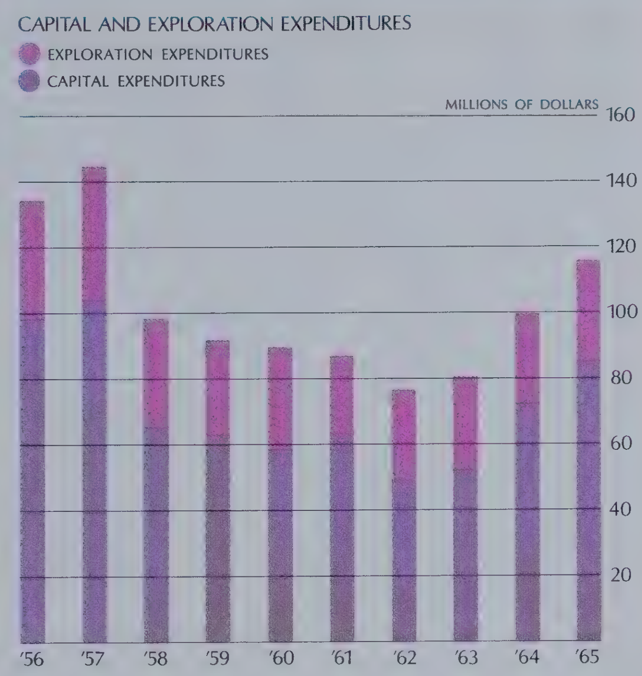
Up to December 31, 1965 the company has deferred income tax totalling $67,614,000. The company's income tax accounting policy is described in the Notes to the Financial Statements on page 27.

Shareholders' Investment

Shareholders' investment increased $29,711,000 in the year and totalled $798,285,000 at December 31, 1965. This amounts to $25.16 per share on the 31,721,133 shares outstanding. There were 41,208 shareholders at year end 1965. Of this total 35,796 were Canadian and 5,412 residents of other countries.

Cash Flow

A statement of source and use of funds appears with the financial statements on page 26 and Chart 10 shows the major changes for each of the past ten years.



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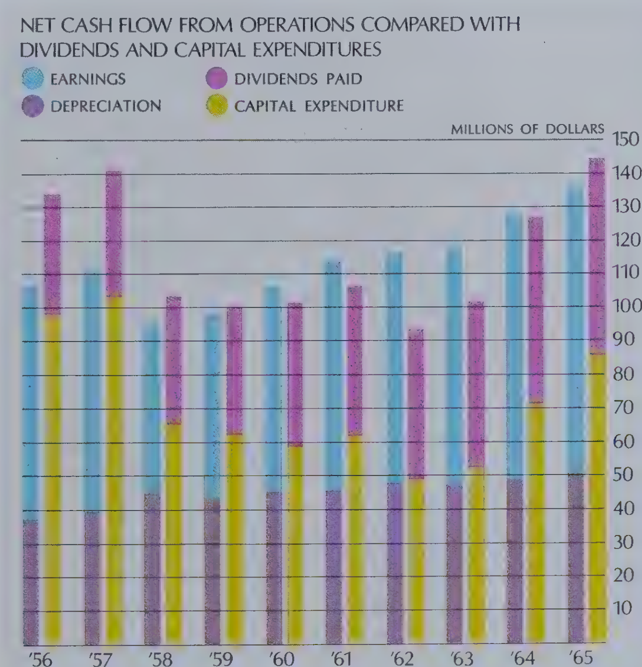

10

Consolidated Balance Sheet at December 31, 1965 and 1964

	1965	1964
CURRENT ASSETS		
Cash, including time deposits	$ 34,743,000	$ 24,926,000
Short-term commercial notes	8,392,000	10,334,000
Government securities, at the lower of cost and market	15,004,000	17,395,000
Accounts receivable (Note 3)	189,349,000	179,167,000
Prepaid taxes, insurance and rentals	2,257,000	1,896,000
Inventories, on basis of cost which was less than market		
Crude oil, products and merchandise	142,509,000	136,635,000
Materials and supplies	9,328,000	10,019,000
	401,582,000	380,372,000
LONG-TERM ACCOUNTS RECEIVABLE	42,568,000	39,965,000
INVESTMENT IN OTHER COMPANIES, at cost		
With quoted market value 1965 — $157,190,000 1964 — $173,257,000	16,012,000	16,012,000
Without quoted market value	6,927,000	5,936,000
FUNDS ON DEPOSIT WITH GOVERNMENTS AND OTHERS	4,807,000	13,190,000
PROPERTY, PLANT AND EQUIPMENT, at cost	1,144,771,000	1,075,101,000
Less — accumulated depreciation and amortization (Note 6)	551,988,000	512,408,000
	592,783,000	562,693,000
DEFERRED CHARGES	2,834,000	2,525,000
	$1,067,513,000	$1,020,693,000

Approved on behalf of the board

W. O. Twaits

Irvin J. Moore

The Notes to the Financial Statements on page 27 are an integral part of this statement.

	1965	1964
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 3)	$ 112,208,000	$ 101,430,000
Income and other taxes payable	18,129,000	14,845,000
	130,337,000	116,275,000
LONG-TERM DEBT (Note 5)	58,400,000	64,100,000
EMPLOYEE ANNUITY AND CONTINGENT OBLIGATIONS	12,877,000	12,905,000
DEFERRED INCOME TAXES (Note 7)	67,614,000	58,839,000
Shareholders' Investment		
CAPITAL STOCK (Note 4)		
Authorized — 40,000,000 shares of no par value		
Issued 1965 – 31,721,133 1964 – 31,668,523 shares	240,701,000	238,501,000
CAPITAL SURPLUS	67,223,000	67,223,000
EARNINGS RETAINED AND USED IN THE BUSINESS		
At beginning of year	462,850,000	439,160,000
Earnings for the year	86,178,000	79,072,000
Dividends paid	(58,667,000)	(55,382,000)
At end of year	490,361,000	462,850,000
TOTAL SHAREHOLDERS' INVESTMENT	798,285,000	768,574,000
	$1,067,513,000	$1,020,693,000

Auditors' Report to the Shareholders of Imperial Oil Limited

We have examined the Consolidated Balance Sheet of Imperial Oil Limited and its subsidiary companies as at December 31, 1965 and the Consolidated Statement of Earnings for the year ended on that date. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above Consolidated Balance Sheet and related Consolidated Statement of Earnings present fairly the financial position of the Companies as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying Consolidated Statement of Source and Use of Funds for the year ended December 31, 1965 and, in our opinion, the statement presents fairly the changes in working capital for the year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

TORONTO, March 3, 1966.

Consolidated Statement of Earnings for the years 1965 and 1964

	1965	1964
REVENUES		
Sales and other operating revenues	$1,145,083,000	$1,064,744,000
Investment and other income	16,784,000	16,290,000
	1,161,867,000	1,081,034,000
EXPENSES		
Crude oil, products and merchandise purchases	625,806,000	581,504,000
Operating, exploration and administrative expenses	302,388,000	282,618,000
Depreciation and amortization (Note 6)	50,340,000	48,857,000
Income taxes (Note 7)	40,861,000	36,979,000
Taxes, other than income taxes	54,207,000	49,705,000
Interest and discount on long-term debt	2,087,000	2,299,000
	1,075,689,000	1,001,962,000
EARNINGS for the year	$ 86,178,000	$ 79,072,000
Per share	$2.71	$2.50

Consolidated Statement of Source and Use of Funds for the years 1965 and 1964

	1965	1964
SOURCE OF FUNDS		
Earnings for the year	$ 86,178,000	$ 79,072,000
Depreciation and amortization	50,340,000	48,857,000
Funds applicable to operations	136,518,000	127,929,000
Capital stock issued	2,200,000	2,306,000
Sales of capital assets	5,155,000	5,148,000
Deferred income taxes	8,775,000	6,734,000
Decrease (Increase) in investments and deposits	7,392,000	(5,764,000)
	160,040,000	136,353,000
USE OF FUNDS		
Capital expenditures for property, plant and equipment	85,585,000	71,608,000
Dividends paid to shareholders	58,667,000	55,382,000
Reduction in long-term debt	5,700,000	5,300,000
Increase in long-term receivables	2,603,000	3,962,000
Other	337,000	(227,000)
	152,892,000	136,025,000
INCREASE IN WORKING CAPITAL	$ 7,148,000	$ 328,000

The Notes to the Financial Statements on page 27 are an integral part of these statements.

Notes to the Financial Statements

1. GENERAL

The consolidated financial statements include the results of operations for 1965 and the financial position as at December 31, 1965 of Imperial Oil Limited and its subsidiaries, all of which are wholly-owned. The Companies are engaged in many phases of the oil industry and related activities and organization of the operations is facilitated by the use of subsidiary companies.

2. CONTINGENCIES AND COMMITMENTS

To ensure the transportation of crude oil to its refineries and other markets, the Company is a party to agreements under which it is obligated to protect certain principal and interest payments required to be made by various crude oil pipe line companies. The outstanding long-term indebtedness of those companies at December 31, 1965 for which the Company is contingently obligated amounts to $25,203,000 (Canadian dollars) plus $29,517,000 (United States dollars). The pipe line companies are meeting their obligations as they fall due and present indications are that they will continue to do so.

The Companies have guaranteed or agreed to guarantee obligations of others, chiefly principal and interest on borrowings, in the amount of $12,855,000.

Under provisions of exploration permits, the Companies have undertaken work obligations in the Northwest Territories aggregating $11,517,000 and have deposited with the Federal Government promissory notes in a like amount. These notes are returnable for cancellation upon performance of the work obligations. At December 31, 1965 approximately $6,400,000 had been expended in respect of these permits.

Tanker charter hire and other rentals payable by the Companies under long-term agreements approximate $2,800,000 annually.

While the Companies are involved in litigation incident to the nature of their business, it is impossible to ascertain what, if any, payments will have to be made in respect of such litigation. However, any amounts which the Companies may be called upon to pay and any assets, the title to which may be in question as a result of current litigation, will not be materially important in relation to the total assets of the Companies.

3. AMOUNTS OWING TO AND FROM AFFILIATED COMPANIES

At December 31, 1965 amounts owing to and from affiliated companies, all of which arose in the normal course of business operations, amounted to $13,311,000 and $655,000 respectively.

4. CAPITAL STOCK

Under the Company's Incentive Stock Option Plans of 1959 and 1965, employees may be granted options to purchase unissued no par value common shares of the Company at not less than 95 per cent of the market price on the date of granting the options. As of December 31, 1965 there were outstanding options for 389,465 shares exercisable at prices of $40.00, $43.11 and $51.42. These options are presently exercisable in respect of 310,165 shares and after September 9, 1967 in respect of the balance of 79,300 shares. Included in the above are 94,375 shares under option to directors or officers.

In 1965 the Company issued 52,610 shares for $2,200,000 under the terms of the Plans.

5. LONG-TERM DEBT at December 31

	1965	1964
Imperial Oil Limited		
3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969	$22,500,000	$26,100,000
Sinking Fund Requirements: $2,500,000 in the year 1968		
3⅝% Serial Debentures, 1955 Issue, matured February 1, 1965		1,500,000
3⅝% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975 . . .	35,900,000	38,000,000
Sinking Fund Requirements: $1,900,000—in the year 1968; $2,000,000—in each of the years 1969 and 1970; $2,500,000—in each of the years 1971 to 1974 inclusive		
	58,400,000	65,600,000
Amount due within one year		1,500,000
	$58,400,000	$64,100,000

6. DEPRECIATION AND AMORTIZATION

Depreciation of plant and equipment is based on the estimated service lives of the assets, calculated on the straight line method. Amortization of producing well costs and of capitalized producing lease costs is determined on the unit of production method.

The charges against earnings in 1965 for amortization of producing well costs and capitalized producing lease costs amounted to $6,272,000 and the accumulated provisions as at December 31, 1965 amounted to $100,955,000.

7. INCOME TAXES

It is the policy of the Companies to claim maximum allowances for income tax purposes. In 1965 the Companies claimed capital cost allowances and allowances in respect of capitalized producing lease costs in excess of the related charges to earnings for depreciation and amortization. Income tax provided on this excess amounting to $8,775,000 has been included in "Deferred Income Taxes" to be taken into earnings of future years when amounts allowable for income tax purposes are less than the related depreciation and amortization recorded in the accounts.

Imperial carries on operations in all phases of the complex petroleum and petrochemical industry and the related income tax interpretations, legislation and regulations are continually changing. As a result there are usually some tax matters in question, sometimes for large amounts. The Companies have made what they believe are adequate provisions for income taxes payable.

8. REMUNERATION OF DIRECTORS

The total remuneration paid in 1965 to directors of the Company in the capacity of a director, officer or employee and included in the Consolidated Statement of Earnings was $751,000.

Ten Year Summary

		1965	1964
Financial			
Revenues from operations and investments		$1,161,867,000	1,081,034,000
Less: Expenses excluding depreciation and amortization		$ 984,488,000	916,126,000
Income taxes		$ 40,861,000	36,979,000
Net flow of funds applicable to operations		$ 136,518,000	127,929,000
Per share		$ *4.30*	*4.04*
Less: Depreciation and amortization		$ 50,340,000	48,857,000
Earnings for the year		$ 86,178,000	79,072,000
Per share		$ *2.71*	*2.50*
Earnings as a percentage of revenues		*7.4*	*7.3*
Dividends paid		$ 58,667,000	55,382,000
Per share		$ *1.85*	*1.75*
As a percentage of earnings		*68*	*70*
Current assets		$ 401,582,000	380,372,000
Less: Current liabilities		$ 130,337,000	116,275,000
Working capital		$ 271,245,000	264,097,000
Ratio of current assets to current liabilities		*3.1*	*3.3*
Property, plant and equipment less accumulated depreciation and amortization		$ 592,783,000	562,693,000
Long term accounts receivable, investments and other assets		$ 73,148,000	77,628,000
Capital employed		$ 937,176,000	904,418,000
Earnings as a percentage of capital employed at January 1		*9.5*	*9.0*
Less: Long-term debt		$ 58,400,000	64,100,000
Other liabilities and deferred income taxes		$ 80,491,000	71,744,000
Balance — being shareholders' investment at book value		$ 798,285,000	768,574,000
Per share		$ *25.16*	*24.27*
Earnings as a percentage of shareholders' investment at January 1		*11.2*	*10.6*
Number of shares issued and outstanding		31,721,000	31,669,000
Number of shareholders		41,208	40,924
Capital expenditures		$ 85,585,000	71,608,000
Exploration expenditures		$ 30,006,000	28,271,000
Operating			
Petroleum and chemical product sales	barrels per day	366,000	342,000
Crude oil processed at refineries	barrels per day	332,000	314,000
Crude oil and natural gas liquids production — gross	barrels per day	133,000	131,000
— net after royalties and oil payments	barrels per day	115,000	114,000
Natural gas production — gross	M.C.F. per day	215,000	188,000
— net after royalties	M.C.F. per day	181,000	160,000
Number of employees at year-end		13,693	13,623

1963	1962	1961	1960	1959	1958	1957	1956
1,015,234,000	977,947,000	907,806,000	873,615,000	866,798,000	838,775,000	884,569,000	837,373,000
857,052,000	818,060,000	747,653,000	721,010,000	727,323,000	711,942,000	720,579,000	681,008,000
40,030,000	43,220,000	46,653,000	46,081,000	41,237,000	31,293,000	52,366,000	49,781,000
118,152,000	116,667,000	113,500,000	106,524,000	98,238,000	95,540,000	111,624,000	106,584,000
3.74	*3.69*	*3.59*	*3.39*	*3.12*	*3.04*	*3.55*	*3.39*
47,064,000	48,234,000	45,668,000	45,322,000	43,713,000	44,920,000	39,543,000	37,485,000
71,088,000	68,433,000	67,832,000	61,202,000	54,525,000	50,620,000	72,081,000	69,099,000
2.25	*2.16*	*2.14*	*1.94*	*1.73*	*1.61*	*2.29*	*2.20*
7.0	*7.0*	*7.5*	*7.0*	*6.3*	*6.0*	*8.1*	*8.3*
48,994,000	44,248,000	44,151,000	42,474,000	37,752,000	37,736,000	37,728,000	35,890,000
1.55	*1.40*	*1.40*	*1.35*	*1.20*	*1.20*	*1.20*	*1.20*
69	*65*	*65*	*69*	*69*	*75*	*52*	*52*
388,862,000	350,786,000	335,848,000	318,007,000	319,802,000	318,416,000	322,675,000	365,674,000
125,093,000	102,346,000	106,562,000	98,328,000	97,557,000	89,217,000	90,790,000	111,183,000
263,769,000	248,440,000	229,286,000	219,679,000	222,245,000	229,199,000	231,885,000	254,491,000
3.1	*3.4*	*3.2*	*3.2*	*3.3*	*3.6*	*3.6*	*3.3*
545,090,000	544,277,000	547,553,000	535,499,000	523,407,000	504,556,000	488,991,000	429,525,000
68,322,000	58,616,000	55,550,000	49,291,000	40,863,000	38,660,000	37,240,000	34,156,000
877,181,000	851,333,000	832,389,000	804,469,000	786,515,000	772,415,000	758,116,000	718,172,000
8.4	*8.2*	*8.4*	*7.8*	*7.1*	*6.7*	*10.0*	*11.3*
69,400,000	73,000,000	76,500,000	80,000,000	83,000,000	88,000,000	90,776,000	94,170,000
65,203,000	65,909,000	76,758,000	75,750,000	73,593,000	71,635,000	67,738,000	59,198,000
742,578,000	712,424,000	679,131,000	648,719,000	629,922,000	612,780,000	599,602,000	564,804,000
23.49	*22.54*	*21.49*	*20.62*	*20.02*	*19.48*	*19.07*	*17.97*
10.0	*10.1*	*10.5*	*9.7*	*8.9*	*8.4*	*12.8*	*14.9*
31,611,000	31,607,000	31,602,000	31,464,000	31,462,000	31,451,000	31,443,000	31,430,000
42,057	43,195	43,562	45,949	45,332	44,668	44,544	43,823
52,515,000	49,077,000	62,103,000	58,747,000	62,194,000	65,614,000	103,063,000	97,951,000
27,731,000	27,312,000	24,638,000	30,768,000	29,693,000	32,770,000	41,261,000	36,154,000
327,000	317,000	295,000	298,000	293,000	276,000	276,000	275,000
319,000	305,000	291,000	285,000	289,000	269,000	267,000	275,000
126,000	124,000	111,000	90,000	96,000	87,000	112,000	121,000
109,000	108,000	97,000	79,000	84,000	77,000	97,000	105,000
185,000	170,000	131,000	120,000	108,000	100,000	97,000	83,000
159,000	150,000	117,000	108,000	98,000	91,000	88,000	75,000
11,998	12,257	12,578	13,007	13,080	13,599	14,657	14,242

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